

**SECOND ROUND INFORMAL WRITTEN COMMENTS
OF THE COALITION TO
REQUEST EQUITABLE ALLOCATION OF COSTS TOGETHER (“REACT”)¹**

The Coalition to Request Equitable Allocation of Costs Together (“REACT”) appreciates this opportunity to comment on the June 28, 2018 Illinois Distributed Generation Rebate Calculation Considerations, Version 2 white paper (the “June White Paper”) that was prepared by the Pacific Northwest National Laboratory (“PNNL”). As the Illinois Commerce Commission (“Commission”) is aware, REACT includes large energy users who own and operate on-site generation at their facilities, as well as developers who work with large energy users and others to develop distributed energy resources (“DER”).

On March 30, 2018, REACT provided Initial Comments in response to PNNL’s March 1, 2018 white paper (“March White Paper”), highlighting that the scope of the investigation that the Commission has been directed to undertake is broader than simply considering the value of smaller-scale distributed generation. REACT’s Initial Comments explained that there are a variety of DERs that add value to the grid, each with different characteristics; each type of DER should be compensated to appropriately reflect its full value. In particular, commercial and industrial (“C&I”) customer on-site DER provides substantial additional value to the grid that is not currently recognized in the utility’s rates. In addition, given that the General Assembly has directed that the State should “encourage[] the adoption and deployment of cost-effective distributed energy resource technologies and devices,” as a part of this process, the Commission should identify and remove any and all regulatory burdens that unnecessarily inhibit the further deployment of DER. (P.A. 99-0906, Section 1.)

Unfortunately, the June White Paper inappropriately failed to address many of the issues addressed in REACT’s Initial Comments. REACT respectfully requests that, going forward, the workshop process better reflect the broad scope of the investigation that the Public Utilities Act (“PUA”) directs the Commission to undertake, and the steps necessary to better position the State to take full advantage of the opportunities DERs provide to advance the Illinois economy.

REACT’s Responses to Suggested Questions

REACT has provided below its responses to three (3) of the questions the Commission posted to frame the discussion for stakeholders’ Round 2 Comments:

Question # 2. What general approaches, whether they were included in the June White Paper or not, should be considered for use in Illinois?

The breadth and depth of the June White Paper was inappropriately constrained. The June White Paper asserts that it provides a “preliminary look” at distributed generation valuation methodology, taking into consideration input from the stakeholder’s written comments. (See June White Paper at 1.) However, the June White Paper inappropriately disregarded the terms of the PUA regarding the scope of the investigation that the Commission is to undertake, ignored the bulk of REACT’s Initial Comments, and failed to even consider the valuation methodology for C&I behind-the-meter DER that REACT discussed.

¹These Second Round Comments are preliminary and necessarily incomplete, given that the Commission has not begun to have substantive discussions on a number of specific issues that are central to the investigation that the Commission has been directed to undertake. REACT reserves the right to respond to additional questions and provide additional or different Comments as this process evolves.

As REACT stated in its Initial Comments, the Commission’s investigation under Section 16-107(6)(e) of the PUA is not limited to just valuing smaller “distributed generation,” but “**shall include** diverse sets of stakeholders, calculations for valuing **distributed energy resource** benefits to the grid based on best practices, and assessments of present and future technological capabilities of **distributed energy resources**.” (220 ILCS 5/16-107.6(e). Emphasis added.) Distributed energy is just one type of DER, which also includes behind-the-meter generation, energy storage facilities, distributed energy resource aggregation, micro-grids, and cogeneration. (NERC, “Distributed Energy Resources, Connection Modeling and Reliability Considerations,” Feb. 2017 at 1, https://www.nerc.com/comm/Other/essntlrbltysrvctskfrCDL/Distributed_Energy_Resources_Report.pdf (last visited March 30, 2018).)

Ameren Illinois likewise appropriately noted in its initial written comments that the determination of value to the distribution system should be guided by a “key concept” that DER is “a more widely used term that may better encompass the full breadth of technologies and applications that may be connected to the distribution grid” than the term distributed generation, and that the definition of DER should “broadly encompass any generation, storage, or other load managing resource connected to the distributed grid.” (Ameren Initial Comments at 1.)

While noting Ameren Illinois’ comments on DER, the June White Paper failed to even acknowledge REACT’s comments on the issue. (See June White Paper at 2.) The June White Paper then summarily stated that it would focus on distributed generation specifically, pointing to a clause in Section 16-107.6(e) that “the value of such rebates shall reflect the value of the distributed generation.” (*Id.*) While that provision notes that the values of those specific *rebates* are for “distributed generation,” Section 16-107.6(e) **requires** that the scope of the *investigation* be much broader: “**The investigation shall include** diverse sets of stakeholders, calculations for valuing **distributed energy resource** benefits to the grid based on best practices, and assessments of present and future technological capabilities of **distributed energy resources**.” (*Id.* Emphasis added.)

Section 16-107.6(e) must be read as a whole and in the context of the goals of the PUA of providing “adequate, efficient, reliable, environmentally safe and least-cost public utility services at prices which accurately reflect the long-term cost of such services and which are equitable to all citizens.” (220 ILCS 5/10-102; *see also* REACT Initial Comments at 1-3.) The decision to take such a narrow interpretation of the PUA at this preliminary stage unnecessarily restricts the Commission’s consideration of the “full breadth of technologies” that add value to the grid and that should be compensated commensurate with their value.

REACT also recommended that the Commission through this investigation take a number of specific additional steps to remove existing barriers to additional DER deployment. In order to actually embrace the benefits that can be achieved through DER, the Commission should:

- Revise the interconnection process to require additional transparency. The June White Paper appropriately notes that the concern regarding transparency was noted by a number of stakeholders. (See June White Paper at 5.) However, the June White Paper inappropriately focuses solely on the transparency of future “hosting capacity analyses,” while ignoring the lack of the transparency in the utilities’ current interconnection processes, which is a significant existing barrier to entry. As noted in REACT’s Initial

Comments, the Commission should adopt a process in Illinois that closely mirrors that successful FERC / PJM process, which includes a transparent public queue and requires interconnection studies and agreements to be filed with the regulator and be made publicly available. (*See* REACT Initial Comments at 6.) The Commission also should develop clear guidelines with respect to the type, scope and level of acceptable interconnection costs; require utilities to provide full and complete supporting documents for their cost estimates and fully justify any deviation from those estimates; create a process for utilities to establish meaningful time lines for project completion; and establish a hotline to resolve commercial issues. (*See id.*)

- Empower customers to directly sell DER onto the grid. The General Assembly has recognized that the investment in smart grid technologies “**empowers the citizens of this State to directly access and participate** in the rapidly emerging clean energy economy while also presenting them with unprecedented choices in their source of energy supply and pricing.” (P.A. 99-0906, Section 1.) Although some customers with on-site generation currently may use the PJM demand response program to mitigate their capacity risk, they currently must use third-party demand response service providers to access the market; only “QFs” can directly sell the output of their facilities. It would be more efficient if customers with all forms of DER were able to directly access those markets themselves.
- Investigate the circumstances under which customers should be entitled to self-build distribution system upgrades and interconnection facilities, consistent with the utility’s requirements.
- Acknowledge that all DER is subject to either ICC or FERC oversight and regulation, and that batteries are to be treated as generation for purposes of the interconnection processes. The Commission should create a bright line definition to ensure that lower voltage facilities that qualify to become transmission under the FERC seven factors test do indeed become transmission. Jurisdiction over DER should be complete and seamless; there should be no suggestion that some form of DER “falls through the regulatory cracks.”
- Recognize in its regulations that payments to the utilities for Commission-jurisdictional DER interconnection costs are not taxable income. Inappropriate tax treatment of these costs artificially inflates the upfront project costs and discourages otherwise cost-effective deployment of DER.
- Establish appropriate market rules that recognize the multiple, separate functions of entities supporting the grid. Specifically, the Commission should recognize that the same entity cannot provide more than one of the following functions: (1) own, operate and maintain the distribution system; (2) act as the distribution system operator, facilitating the market for the distribution system; and (3) own or operate DER.

It would be entirely inappropriate for the Commission to accurately calculate the benefits of DER only to have the actual deployment of additional DER thwarted by these types of administrative obstacles. Therefore, REACT respectfully requests that, as part of this investigation, the Commission consider the value of all DERs to the distribution system and take the additional steps necessary to appropriately facilitate additional development of DER.

Question #3. Regarding the different benefits of distributed energy resources, please provide input on the following:

- 1. Which value streams should be included in the Section 16-107.6 DG rebate?**

As discussed in REACT's Initial Comments, the unique value associated with commercial and industrial ("C&I") behind-the-meter DER should be recognized by the Commission. Behind-the-meter DER includes cogeneration, combined heat and power, reciprocating engines, and other generation or energy storage systems installed on the customer's premises. These DER systems are non-utility scale technologies used to provide all or a portion of the customer's electricity supply needs, thus avoiding the consumption of electricity from the grid. By displacing electricity delivered by the transmission and local distribution utilities, behind-the-meter DER reduces the need for electricity to be delivered by the utility, thus reducing the need for new generation capacity and reducing transmission and distribution capital costs for upgrades, as well as maintenance expenses.

Question #4. Regarding the calculations of the various value streams, if not included in your general response, please provide input on the following:

- d. What distribution system data, pricing data, forecasts, analysis results, formulas, or other information is necessary to compute the value of each value stream that should be separately compensated pursuant to Section 16-107.6?**

The valuation of the C&I behind-the-meter DER should include both the displaced energy "commodity" costs, as well as all fixed "avoided" costs associated with transmission, distribution and capacity. Providing transmission and capacity credits for DER has already been accepted by several states, as has the concept of considering non-wires alternatives to distribution expansion. (See June White Paper at 4, 16-17; March White Paper at 9-13.)

REACT respectfully requests that the Commission calculate the C&I behind-the-meter DER valuation to accurately reflect these avoided costs and the value provided to the grid. For each MW of on-site generation, the behind-the-meter DER should receive an annual credit equal to the annual per MW transmission and capacity related charges. These charges are the costs that are being avoided by the on-site generation of that MW. As discussed in detail in REACT's Initial Comments, REACT has calculated that annual cost to be approximately \$130,000 per MW for customers in the ComEd service territory beginning in June 2018; \$120,000 per MW beginning in June 2019; and \$110,000 per MW beginning in June 2020. Given that a typical C&I on-site generation system has a capacity of approximately 5 MW, the value the behind-the-meter DER is providing is significant: approximately \$500,000 per year.

Conclusion

REACT appreciates the opportunity to present these Second Round Comments, and looks forward to continuing to work with the Commission and interested stakeholders in this process to develop equitable and accurate rates that reflect the unique value that C&I behind-the-meter DER provides to the grid as well as to develop additional fair regulations that will encourage cost-effective DER.